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The Evolution of European Economic Governance

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Abstract: This paper[1] scrutinizes the transformation of the European economic governance. This is a framework conceived by European Union decision-makers to establish institutions and processes – coordination and harmonisation of economic policies – in order to achieve economic and social development for the European Union and its citizens. Prior to the global financial crisis, the European economic governance was incomplete, poorly coordinated and in certain macroeconomic areas insufficient. The international financial crisis and the "Euro crisis" compelled a much deeper and more comprehensive governance structure from the decision-makers of the European Union. Despite the rapid emergence of Community-level crisis management mechanisms, ad hoc responses and processes prevailed till the turning point of the "Euro crisis" in 2012. Since then, the transformation the European economic governance continued in a heavily institutionalized and coordinated form, providing a long-term vision for the European Union and the Eurozone. European economic governance has been substantially expanded, institutional arrangements cover fiscal policy, monetary policy, the supervision of the financial system, policies related to structural and competitiveness issues. Moreover, comprehensive and coordinated reform strategies were launched, based on the European Commission's priorities. In this paper, we carry out a simple analysis to detect whether the new European economic governance has corrected the pre-crisis country-specific risks and institutional flaws.

Key-Words: European economic governance, European Union, Eurozone, Euro crisis, fiscal policy, monetary policy

JEL classification: E02, E42, E61, F55

1 Introduction

The European economic governance (or institutional framework of the European Union and Eurozone) has significantly changed since the international financial crisis. Even though the crisis originally erupted in the United States, due to the mismanagement of the subprime mortgage market, it rapidly developed into a full-blown international financial crisis and spilled over into European countries. Individual (country-specific) responses were unable to handle properly the crisis and generated several coordination problems among member states. The year of 2008 was characterised by economic slowdown and in 2009 the European Union plunged into an unprecedented and severe recession; the average GDP of the European Union fell by 4.4% and apart from Poland all member states suffered from grave economic deterioration. In 2010, European countries hoped to forget the negative impacts of the crisis and build up a solid recovery. This was the case in most member states, but Greece sank into an even deeper recession due to its unsustainable fiscal developments which led to rapid loss of credibility and confidence on regional and global financial markets. The Greek crisis

[1] This paper was presented at the 13th Hungarian-Romanian Round Table, *Romania and Hungary in the globalised World and partners in the European integration*, September 26, 2019.

generated a series of sovereign economic and debt crisis (namely the Eurozone debt crisis or the Euro crisis) in the Southern periphery of the Eurozone; Ireland, Portugal, Spain and Cyprus needed external financial assistance to revive their economies, moreover, Italy was also situated in the brink of another crisis. The global financial crisis and the Euro crisis have revealed the institutional weaknesses and structural problems of the Eurozone as well the European economic governance. Furthermore, the continuous crisis in the Southern periphery has defined the directions of community-level crisis management.

Responses to the Euro crisis can be split into **four macroeconomic areas**. *First*, the European Central Bank deployed extraordinary and unconventional toolbox of monetary policy: covered bond purchase program, securities markets program, long-term refinancing operations, outright monetary transactions and finally the initiation of the quantitative easing. *Second*, community-level or institutional responses concerned the framework – rules, regulations, supervision and monitoring – of fiscal policy (the creation of temporary and permanent crisis management facilities, *Six-Pack*, *Fiscal Compact*, *Two-Pack* and the *European Semester*). *Third*, the community-level financial supervisory and regulatory system was created, which first gave rise to the macroprudential supervision (*European Systemic Risk Board*) and was followed by the launch of the microprudential supervisory system, namely the *Banking Union*. And *fourth*, perhaps least pronounced, there were implemented the European Union-wide reforms promoting competitiveness and structural reforms (*Euro Plus Pact* and certain measures of the *Six Pack* referring to macroeconomic imbalances) among member states. It is worth emphasizing that the crisis management between 2010 and 2012 was basically a series of ad hoc steps aimed at managing the actual crisis situations in Greece, Ireland, and Portugal. Then, since the end of 2012 it has been transformed into a much more conscious series of measures to reconstruct the economic governance of the Eurozone and the European Union, which intends to contemplate or finalize the institutional conditions for an accurately functioning Economic and Monetary Union.

The transformation of the global financial crisis into a Euro crisis and the crisis management raise a number of questions, some of which are easier, while others are more difficult to answer. These questions are as follows in a logical order: *What were the institutional and structural failures of the Economic and Monetary Union and the European economic governance before the two crises? What caused the prolonged crisis in the Southern periphery of the Eurozone? What macroeconomic processes and structural problems took place and emerged invisibly before the crisis; what kind of macroeconomic impacts materialized during the Euro crisis and what were the macroeconomic consequences of the crisis? Why was the European integration unable to provide fast and efficient responses to the Euro crisis? What responses did the EU decision-makers give during the crisis management? What institutions were created under the crisis management process and how these new institutions were constituted? And finally, probably the most important question, whether these new institutions and regulations can really correct the failures of the Eurozone's institutional set-up and mechanisms, or further actions are still necessary for this?*

The paper proceeds as follows. Section 2 provides a short literature review of economic governance in general and the European economic governance. Then we turn to the empirical part of the paper, which has three main elements, firstly we analyse the pre-crisis governance framework of the European Union, secondly we show the transformation of the European economic governance as a result of the global financial crisis and the Euro crisis, and thirdly we identify remaining risks that will have to be tackled in the future. And in the final section we provide some conclusions.

2 Economic Governance in the European Union – a short literature review

Economic governance is a widespread terminology in economics, political science and in EU studies as well. In theory, economic governance ensures the proper functioning of markets, economic actions among actors and in general all transactions that take place in the economy. In this manner Dixit (2003, p. 449) defines the necessity of economic governance: "Almost all economic transactions need governance". Scholars of institutional economics can provide an easy and quick answer to the question of what satisfies this need, official legal systems perfectly and costlessly provide this service. Based on Dixit's (2009) approach, economic governance is the structure and functioning of the legal and social institutions that support and determine economic activities and transactions by protecting property rights, enforcing contracts and overcoming collective action dilemmas to administer physical and organizational infrastructure. Williamson (2005) brings into play a slight supplement to Dixit's approach and defines economic governance (or more precisely economics of governance) as follows: "study of good order and workable arrangements" (Williamson, 2005, p.

1.). The addition is obviously the ordering, i.e. participants of economic actions and transactions are actively involved in the arrangement of good order. The rules related to ordering are always secured (and varies) by the state.

The next step to our core research topic, the analysis of European economic governance, is to embed governance approaches in European Union studies. European Union member states have historically pooled important areas of policy authority to community level. The creation of these new supranational institutions at European Union level has significantly changed the nature of European politics and economics. Theoretically, institutions – supranational institutions, rules and regulations – are tools to decrease the complexity of our life, in terms of European Union level institutions can be understood as an apparatus to govern the processes, outcomes, preferences and behaviour through the maximization of relevant actors' benefits. According to Peter and Pierre (2009, p. 91), the European context is slightly different because the European Union is a large territory with different and complex economic, social and political structures thus governance needs capacity: "governance implies the capacity of a society to develop some means of making and implementing collective choices". The mechanism of this process starts with the identification of a common problem (common problems need common solutions). However, reaching common solutions is not easy and not definite, since, on the one hand, member states must agree and decide upon common goals and on the other hand, member states insist on representing their own goals and preferences. When common goals are reached, the following step is to design and implement the means (institutions) to achieve those purposes. And finally, an examination is also necessary to evaluate whether the desired goals via the means (institutions) have been achieved or not.

In summary, institutions are the tools to reach common goals at European Union level and the whole set of institutions is the governance in the European Union. Through this governance, decision-makers of the European Union are able to influence processes, outcomes, preferences and behaviour and to guide the complex structure of the EU. The European Parliament's think tank definition to economic governance is the following: "Economic governance refers to the system of institutions and procedures established to achieve Union objectives in the economic field, namely the coordination of economic policies to promote economic and social progress for the EU and its citizens" (EP, 2019, p. 1). In this case, the general governance starts narrowing to economic governance as the above-mentioned definition concentrates on the economic field and the coordination of economic policies. For our research purpose, this interpretation is still wide, therefore we select four macroeconomic areas: monetary policy, fiscal policy, financial supervision and regulation and structural cooperation. So, basically, we deal with a very narrow phenomenon of economic governance, namely the "macroeconomic governance".

3 Methodology and empirical research

In the empirical part of our paper, we analyse the transformation of the institutional structure (macroeconomic governance) of the Economic and Monetary Union and the European Union. The global financial crisis almost splits the last 20 years of the Eurozone; thus, we can investigate separately the pre-crisis institutional structure and the post-crisis one, moreover the separable periods can also be evaluated in a comparative manner. Nevertheless, neither the institutional structure of the pre-crisis period nor the institutional structure of the post-crisis period can be considered as static.

The steps of the analysis are the followings: *first*, we show the European Union's institutional framework of the pre-crisis period, what were the objectives and the related economic governance tools between 1999 and the global financial crisis; *second*, we exhibit the transformation of the European economic governance as a result of the global financial crisis and the Euro crisis; and *third*, we compare the pre-crisis and post-crisis risks to evaluate capabilities of the European economic governance to prevent and manage future crises.

3.1 European economic governance before the global financial crisis

During the pre-crisis period, the tools of the European economic governance were limited. The pre-crisis institutional set-up was built-up on two major pillars and on some "soft" coordination mechanism. In this regard, Table 1 depicts the pre-crisis economic governance of the European Union. National monetary policies were delegated to supranational level to the European Central Bank and the European System of Central Banks, and fiscal policy remained decentralized but coordinated by the *Stability and Growth Pact*.

The primary objective of the European Central Bank was and is to achieve price stability, the inflation rate of 2% or below. As a secondary objective, without compromising price stability, the Eurosystem supports general economic policies in the European Union (more accurately in the Eurozone) such as economic growth, competitiveness, employment, social development and the protection of environment.

The second pillar was the creation of rule-based fiscal policy in the European Union. On the one hand, the Maastricht Treaty limits government deficits to 3% of GDP and public debt levels to 60% of GDP in order to enable countries to introduce the single currency. The fiscal provisions of the Maastricht Treaty, following German interest, were institutionalized under the *Stability and Growth Pact* to strengthen monitoring and coordination of national fiscal and economic policies to enforce the deficit and debt limits instituted by the Maastricht Treaty. The *Stability and Growth Pact*'s preventive arm ensures sound budgetary policies over the medium term. And the corrective arm (namely the *Excessive Deficit Procedure*) deals with non-compliance of sound public finances. Under the *Excessive Deficit Procedure*, if a member state breaches the 3% budget deficit ceiling the Council will issue recommendations to address this problem (suggestions to reach the 3% threshold) and finally may lead to sanctions. In 2005, the *Stability and Growth Pact* was reformed by European Union decision-makers. Germany and France, as a consequence of large-scale structural reforms, were unable to satisfy the fiscal provisions and were allowed to run excessive in multiple years without any sanctions. The *new Stability and Growth Pact* better considers country-specific circumstances and strengthens surveillance and coordination of national fiscal policies. Moreover, the *Excessive Deficit Procedure* was also amended to easier and faster respond to non-compliance.

The *Single European Act* – the principle of four freedoms – ensures also the free movement of capital among member states of the European Union, which contributed to the deepening of financial integration. Nevertheless, in the area of financial supervision, regulation and monitoring there was no appropriate institution or rule to reach financial stability. European Union decision-makers missed to govern this area; however, a few institutional elements were added to the pre-crisis economic governance structure to promote the sound functioning of European financial markets. The *Financial Services Action Plan* harmonized financial services – extended the scope of the *Single European Act* – and created a single market for financial services. Furthermore, the regulatory structure of the single market for financial services was initiated by the *Lamfalussy Process*, the approach first controlled the securities market and then banking, insurance, pension and asset management markets. And finally, the European Union took over both the Basel I and Basel II regulations to govern banking sectors.

In addition to the above-mentioned macroeconomic components of economic governance, several non-effective and non-binding institutions and tools were added to the pre-crisis economic governance framework of the European Union: Broad Economic Policy Guidelines and guidelines for employment policies; Cardiff Process; Open Method of Coordination (social policy); European Macroeconomic Dialogue, and European Social Dialogue (Heise, 2012). Since these institutions and initiatives were non-binding for the member states, they served only for information exchange and loose connection of sectoral national policies, particularly in the fields of structural, social and employment policies. It is worth noting that the above-mentioned enumeration of **soft governance tools** was supplemented with a horizontal long-term project of the European Union, the Lisbon Strategy that aimed to transform the community into the most competitive region in the world.

Table 1: Pre-crisis economic governance in the European Union

Fields	Fiscal policy	Monetary policy	Financial regulation	Soft economic governance
Objectives	Sustainable and stable public finances	Price stability	Financial stability	Harmonisation and exchange of information
Institutions	• Stability and Growth Pact • Reformed Stability and Growth Pact	• Conventional instruments of the European Central Bank	• Missing institutions and regulations; • "Soft" financial instruments: Financial Services Action Plan and the Lamfalussy Process • External tools:	• Lisbon Strategy: Broad Economic Policy Guidelines and guidelines for employment policies • Cardiff Process • Open Method of Coordination (social policy) • European

Fields	Fiscal policy	Monetary policy	Financial regulation	Soft economic governance
			Basel I and Basel II regulations.	Macroeconomic Dialogue • European Social Dialogue

Source: Own compilation.

3.2 European economic governance during the post-crisis period

In the late 2000s, the Economic and Monetary Union (and the European Union) faced the most severe challenge of its existence so far; the global financial crisis and the subsequent Euro crisis have revealed a significant number of problems: the asymmetrical institutional structure of the monetary union (namely the delegation of the monetary policy to Community level and rule-based but discretionary fiscal policy), poor or inadequate economic governance and powerless regulatory systems (weak enforcement of the *Stability and Growth Pact*, the adverse rules of the common monetary policy and the missing regulation of the financial and banking system), strong core-periphery dichotomy in terms of market economy, welfare and social structures, large and probably unmanageable heterogeneity among member states and many other problems.

In general, the European economic governance is made up of **four closely interrelated building blocks**: monitoring of national economic policies, prevention, correction and enforcement. The European Commission regularly monitors macroeconomic developments of member states as well as global economic trends. The significance of this process is to detect macroeconomic problems, unsustainable macroeconomic trends and changes in member states' competitiveness. The economic governance framework has been organized into annual cycles under the European Semester. European institutions and bodies, and national governments must carry out tasks related to macroeconomic and budgetary areas in specific times and in specific order. The essence of the European Semester is to coordinate national economic policies: sound public finances, avoiding substantial macroeconomic imbalances, implementing structural reforms and facilitating economic growth and employment.

The role of the European Central Bank has significantly been strengthened after the global financial crisis and during the Euro crisis; the two crises forced the European Central Bank to act much more actively in the real economy. This activity no longer aimed at achieving a stable inflationary environment, but rather the functioning and the stability of the whole Eurozone economy. The European Central Bank has increasingly focused on the use of non-conventional instruments in an environment where depressed inflation and historically low interest rates were perceived as an external condition. Thus, the application of non-conventional monetary measures is understandable to cope effectively with tasks such as cleaning-up the transmission mechanism channels, boosting economic recovery in crisis-ridden member states and supporting financial stability through large-scale refinancing programs to commercial banks. Among several measures that were adopted by the European Central Bank, it is worth highlighting the role of Outright Monetary Transactions: under this measure the European Central Bank officially announced that it would buy government-issued bonds in secondary sovereign bond markets to safeguard an appropriate monetary policy transmission and to preserve the Eurozone. By this measure, the European Central Bank has de facto fulfilled the lender of last resort function vis-á-vis the member states of the Eurozone.

Since the eruption of the Eurozone crisis, European decision-makers have significantly strengthened the **fiscal framework** of the European Union and the Eurozone. The engineering of new fiscal governance has taken place at two interconnected levels, the first, rule-based continuously strengthening fiscal regulations and the second, the creation of a permanent firewall to assist Eurozone sovereigns. The Six-Pack was introduced in 2011 and aimed to develop and strengthen the *Stability and Growth Pact* by ensuring the viability of national public finances through either preventive and corrective actions and to reduce macroeconomic imbalances of member states. They apply to all EU member states, but some rules apply only to the Eurozone countries. An intergovernmental agreement, the *Treaty on Stability, Coordination and Governance* aka *Fiscal Compact*, was added to the fiscal governance framework in 2012 (and entered into force from January 2013)[2]. The *Fiscal Compact* is a clear step towards a "fiscal stability union" by further strengthening fiscal rules of the European Union and the Eurozone. Moreover, the *Treaty on Stability, Coordination and Governance* contains a second and a third pillar above the Fiscal Compact. The second pillar bolsters economic governance and convergence

[2] The Czech Republic and the United Kingdom decided to not participate in the agreement.

among Eurozone member states, while the third pillar covers the governance of the Eurozone with the formulation of the Euro Summit. And finally, the "Two-Pack" also enhances the Six-Pack reforms by improving budgetary coordination via the introduction of a common budgetary timeline and a system of enhanced surveillance.

Prior to the early 2010s, when several Eurozone member states suffered from economic meltdown or default, the economic governance framework of the European Union or the Eurozone lacked a permanent firewall or a rescue mechanism for sovereigns because of the strict "no bail-out clause". When Greece officially requested financial assistance from the European Union, and as the Euro crisis spread over and escalated among periphery Eurozone member states, decision makers of the European Union had no other choice than to establish temporarily and then permanently a firewall to provide financial assistance to crisis-ridden member states and to prevent the disintegration of the Eurozone. First, two temporary financing programmes were introduced: the European Financial Stability Mechanism and the European Financial Stability Facility. These temporary measures were unable to stop contagion in the Eurozone periphery so a further and permanent firewall, namely the European Stability Mechanism (ESM) was created by melting the temporary mechanisms into one. The European Stability Mechanism is an intergovernmental organization, which operates under the ESM treaty, ratified by all Eurozone member states.

European crisis management between 2010 and 2012 heavily concentrated on **monetary and fiscal policies**. Then, responding the global financial crisis, decision makers of the European Union created a macroprudential supervisory body, the *European Systemic Risk Board*, to regularly monitor systemic risks of regional financial markets. Concepts for the Banking Union were launched at the end of 2012 and negotiations started in 2013 to introduce a microprudential supervisory body. The Banking Union is based on three pillars (Single Supervisory Mechanism, Single Resolution Mechanism and the European Deposit Insurance Scheme) and the Single Rulebook covering the stipulations for financial actors.

Reforms aiming at boosting **competitiveness and structural reforms** were neglected in the pre-crisis period. The institutional engineering during crisis management has produced two different instruments to deal with the obstacles of competitiveness and structural reforms: *Euro Plus Pact* and *provisions regarding macroeconomic imbalance under the Six-Pack*. In 2010, 24 member states adopted an intergovernmental agreement (Euro Plus Pact or Competitiveness Pact) to enhance structural reforms (improve competitiveness, employment, financial stability and fiscal stance of participating countries). In parallel, the Six-Pack introduced the Macroeconomic Imbalance Procedure in order to identify, prevent and address the emergence of adverse macroeconomic imbalances that could negatively affect economic stability in a member state, or the European Union as a whole. The following table summarises the changes in the economic governance framework of the European Union.

Table 2: Post-crisis European economic governance framework

Fields	**Fiscal policy**	**Monetary policy**	**Financial supervision and regulation**	**Other Areas (structural policies and competitiveness)**
Objectives	Sustainable and stable public finances; Permanent firewall and assistance mechanism for member states	Price stability; Supporting national economic policies; The effectiveness of monetary transmission mechanism; „preserve or save the euro"	Financial stability; Macroprudential and microprudential supervisory system; Institutionalized and predictable bank consolidation	Monitoring of macroeconomic imbalances; Fostering competitiveness; Enforcing the implementation of structural reforms
Institutions	• European Semester; • Six-Pack (fiscal provisions); • Fiscal Compact – TSCG); • Two-Pack; • European Stability Mechanism	• Non-conventional measures of the ECB; • Accommodative monetary policy; • „whatever it takes"; • De facto lender of last resort	• European Systemic Risk Board; • Banking Union o Single Supervisory Mechanism, o Single Resolution Mechanism, o European Deposit Insurance Scheme; • "Soft" financial	• Six-Pack (macroeconomic imbalances); • Euro Plus Pact; • Europe 2020 Strategy

Fields	Fiscal policy	Monetary policy	Financial supervision and regulation	Other Areas (structural policies and competitiveness)
			instruments • External tool: Basel III regulations	

Source: Own compilation.

3.3 Analysis of pre-crisis and post-crisis risks and solutions

On the one hand, deficiencies and flaws can be identified in the entire institutional structure of the euro area, and on the other hand, some areas have intentionally been uncoordinated at Community level in the pre-crisis period. In the case of monetary policy, it is worth pointing out that the European Central Bank's mandate has been limited, providing price stability has been primordial, while the promotion of member states' general economic policies has only appeared as a secondary and a non-exercised objective. Because of the prohibition of monetary financing, the European Central Bank cannot fulfil the role of lender of last resort *de jure*, so it cannot provide active insurance against crises for member states. In addition, another problem is that EU decision-makers did not create an **exit strategy** for member states to leave the fixed exchange rate regime (this became a crucial issue during the Greek crisis). During the pre-crisis period, the credibility of Eurozone membership, measured by financial actors and credit rating agencies, led to excessive lending in the Eurozone periphery and generated deeper economic downturn as a result of the global financial crisis. **The post-crisis period can be characterized with the revival of monetary policy**, particularly the application of non-conventional monetary policy measures. Thus, the European Central Bank has become a *de facto lender of last resort*, however, it is not allowed to *de jure* undertake this role due to Treaty regulations. Finally, the transmission channel of monetary policy is still unclear, so the European Central Bank is likely to maintain zero-bound interest rates and apply non-conventional measures in the future.

The regulatory framework regarding fiscal policy has also suffered from several mistakes. Member states – with more or less success – focused on to satisfy the Maastricht criteria deficit target, instead of following the underlying objective of the Pact to reach close-to-balance budgetary position or even budgetary surplus. Moreover, the Pact was not induced strong (or at least weak) convergence among member states' fiscal policies. Even if member countries satisfied the obligatory deficit target, they had different fiscal stances, national characteristics of the fiscal policies were maintained such as: different structure of the expenditure and revenue side, social and welfare systems, tax systems, efficient taxation, etc. And thirdly, the *Stability and Growth Pact* did not stipulate strict rules on the reduction of government debt levels. The **new European economic governance framework** has initiated several alterations: firewall for sovereigns, strengthened fiscal governance (monitoring, prevention, corrections and enforcement) and excessive deficit procedure on the basis of public debt. But on the other hand, there is no fiscal union (mutualisation of public debt and deeper fiscal redistribution among member states of the Eurozone) and austerity measures have had grave negative impacts on welfare in crisis-ridden member states.

There are two further aspects of member states' public finances where flaws can be identified: the public finances and structural reforms nexus and the poisonous relationship between sovereign member states and the financial system (namely the vicious circle). In the former case, the revised version of the *Stability and Growth Pact* took into consideration the situations of structural reforms. At the same time, decision-makers of the European Union missed to initiate bold measures or efficient institutions for the promotion of structural reforms among member states, and 'soft' governance initiatives have failed to accomplish this task. Regarding the latter, in the vicious circle, the separation of sovereign debt crises and banking crises has not been institutionalized and moreover, there was no legal base (no bailout clause) for providing financial assistance to Eurozone member states and parallelly, there were no institutional elements for rescuing banks. The launch of the Economic and Monetary Union created a monetary pillar and a half-built economic pillar based on the single market for the Eurozone but the fiscal pillar (fiscal union) and/or financial pillar (financial or banking union) have not been established. The *Euro Plus Pact* and non-fiscal provisions of the Six-Pack are attempts to foster structural reforms and competitiveness of member states but these attempts are powerless to generate large-scale structural reforms and decrease the heterogeneity of the European Union as well the Eurozone. The existing elements of the Banking Union tackle the question of monitoring, supervision and regulation; however, the European Resolution Fund is not ready to deal with multiple banking crises.

Table 3: Incompleteness of European economic governance

Fields	Fiscal Policy	Monetary Policy	Financial supervision and regulation	Other fields
Pre-crisis institutional structure	• Stability and Growth Pact; • Reformed Stability and Growth Pact	• conventional policies of the European Central Bank	• There is no effective tool • "Soft" institutions such as Lamfalussy Process; • External tools: Basel I and Basel II	• Lisbon Strategy; • „Soft" governance
Pre-crisis risks	• Fiscal imbalances; • Problems with public debt levels • No firewall for sovereigns	• Wrong growth models (real-estate bubble) • Inflation persistence	• Financial strains; • Vicious circle; • No firewall for banks	• Structural imbalances; • Lack of structural reforms • Competitiveness problems
New institutional structure	• European Semester; • Stability and Growth Pact's reform • Six-Pack (fiscal parts); • Fiscal Compact (Treaty on Stability, Coordination and Governance); • Two-Pack; • **European Stability Mechanism**	• non-conventional policies; • Accommodative monetary policy; • „whatever it takes"; • **De facto lender of last resort for sovereigns**	• European Systemic Risk Board; • Banking Union o Single Supervisory Mechanism o **Single Resolution Mechanism** o European Deposit Insurance Scheme*; • External tool: Basel III.	• Six Pack (supervision of macroeconomic imbalances): Macroeconomic Imbalance Procedure Excessive Imbalance Procedure • Euro Plus Pact • Europe 2020 Strategy
Remaining risks	• Fiscal imbalances • Austerity, depressed growth forecasts • Lack of fiscal redistribution mechanism • Negative welfare and distributional impacts of austerity	• The European Central Bank is not a de jure lender of last resort. • Weak monetary transmission	• Capitalization of the Single Resolution Fund is still in progress; • No European Deposit Insurance Scheme • Weak lending activity	• "Coordinated" structural imbalances; • Lack of deep structural reforms; • Heterogeneity; • Competitiveness problems

Source: Own compilation base on the financial and economic assistance programmes of the European Commission (European Commission, 2010; 2011a; 2011b; 2012a; 2012b; 2013; 2017a).

The identified risks 'enforce' two types of activity from the decision-makers of the European Union. The first one is the creation of firewall tools (risk-sharing institutions and instruments), the second one is the steps that ensure fiscal rigor and coordination and harmonization of macroeconomic policies at Community level (risk reduction rules and regulations). These activities went hand in hand in the time of crisis management.

4 Conclusion

In this paper, we have thoroughly analysed the evolution of the instruments of the European economic governance in four macroeconomic areas, monetary policy, fiscal policy, financial supervision and regulation and structural policies. The institutional framework or macroeconomic governance of the Eurozone is still evolving and becoming increasingly complex. Community level responses to the global financial crisis and the Euro crisis have eventuated in introducing a significant number of new institutional elements. Risk reduction institutions – fiscal regulations such as "Six Pack", Fiscal Compact, "Two Pack", supervision of macroeconomic imbalances, Euro Plus Pact, the macroprudential supervisory system (European Systemic Risk Board) and partially the microprudential supervision (the first pillar of the Banking Union, the Single Supervisory Mechanism) – are all aimed at reducing the probability of future crises. If crises are inevitable, risk-sharing institutions (the European Stability Mechanism, the Single Resolution Mechanism and the

European Central Bank as *de facto* lender of last resort) can be used to mitigate the negative impacts of the crises and to boost rapid recovery. The future set-up of European economic governance is not yet known, the Five Presidents' Report (Juncker et al., 2015) and the Reflection Paper of the European Commission (European Commission, 2017b) contain detailed information and radical ideas on it. Thus, the research topic of 'European economic governance' is going to provide an excellent and interesting field for economics and political science scholar in the future.

Summarizing, we have displayed the transformation of the European economic governance; even though this framework has substantially been reinforced with risk-sharing and risk reduction institutions, instruments, rules and regulations, however it is still incomplete. Nevertheless, a future crisis will test this framework, and scholars will have enough information to evaluate the efficiency, resilience and depth of the new European economic governance.

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